

STATISTICS OF INCOME | Division-wide Project

# Post-Filing Tax Adjustments

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- The Statistics of Income (SOI) produces various products, utilizing originally filed Forms 1040 and 1120 along with additional forms and schedules.
- Brief Overview of Processing Taxpayers' Data
  - Taxpayers submit their tax returns to the IRS.
  - The IRS transcribes and edits taxpayers' information.
  - SOI receives the edited IRS data and further transcribes and edits the data.
    - Codes are assigned, records are linked, etc.
- However, SOI excludes updated taxpayer information from amended returns as well as from examinations.
- Question from previous Consultants' Panels: How would the inclusion of amended and examined returns affect SOI's products?

 What is the impact of including amended and examined returns to SOI's products?

### Project's Scope

- Two approaches: Individual and Corporate
- Updates to Forms 1040 and 1120 filed in Tax Year
   2013
- Aggregate Changes (instead of line item)
- Effect on SOI's Individual and Corporate Samples

- Individual Post-Filing Adjustments
- Corporate Post-Filing Adjustments
- Overall Conclusions
- Questions and Comments



# Individual Post-Filing Adjustments

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### Office of Compliance Analytics' 2012 Report on Amended Returns

- Analyzed available 1040X data on the Compliance Data Warehouse for Tax Years 2000 to 2008.
- Relevance: Provided statistics to compare our results with.

#### 2014 Statement of Work

- Intended to provide statistics on amended returns, especially in terms of filing patterns, return characteristics and indicators of noncompliance.
- Relevance: Provided validation of the appropriate datasets and variables to use.

#### Publication 6186

- Provided a count of the actual and projected Calendar Year returns for various forms.
- Relevance: Provided the volume of Form 1040X filed each Calendar Year (but not the dollar amounts).

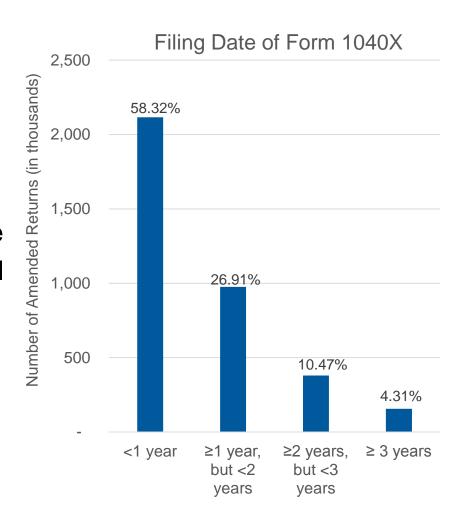
#### 2014 Data Book

- Annual publication that contained statistical tables and organizational information on collected revenue, issued refunds, taxpayer assistance, etc.
- Relevance: Provided statistics on examination data.
- Publication 1304 (Individual Income Tax Returns Complete Report)
  - Provided statistics on individual income tax returns.
  - Relevance: Reported the number of Form 1040 filed for Tax Year 2013.



### RS Amended Return (Form 1040X)

- A form used to correct a previously filed Form 1040 (or another Form 1040X).
  - Can only be filed on paper (cannot be filed electronically).
  - Filed within 3 years after the date that the taxpayer filed the original return OR within 2 years of the date that the taxes were paid, whichever is later.
    - Special considerations are made for net operating losses, foreign tax credits, bad debts and other issues.



Difference from Form 1040 (TY 2013) filing date

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Form 1040X (Rev. 12-2013) For forms and publications, visit IRS.gov.

Cat. No. 11360L

Form 1040X (Rev. 12-2013)

For Paperwork Reduction Act Notice, see instructions.

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9	Other taxes	9			
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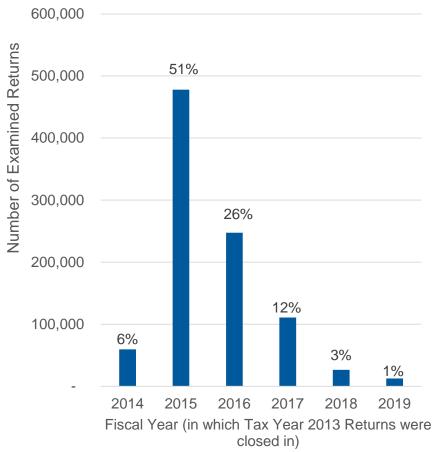
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15 Total amount paid with request for extension of time to file, tax paid with original return, and additional tax paid after return was filed.  16 Total payments. Add lines 11 through 15.  17 Overpayment, if any, as shown on original return or as previously a Subtract line 17 from line 16 (if less than zero, see instructions).  18 Subtract line 17 from line 16 (if less than zero, see instructions).  19 Amount you owe. If line 10, column C, is less than line 18, enter the difference. This Amount of line 20 you want refunded to you.  20 Amount of line 20 you want applied to your (enter year):  21 Amount of line 20 you want applied to your (enter year):  22 Amount of line 20 you want applied to your (enter year):  23 Expansion of time to lile, tax paid with original return is true, correct, and complete. Declaration of preparer tax paid with original return is true, correct, and complete. Declaration of preparer tax paid with original return is true, correct, and complete. Declaration of preparer tax paid with original return is true, correct, and complete. Declaration of preparer tax paid with original return is true, correct, and complete. Declaration of preparer tax paid with original return is true, correct, and complete. Declaration of preparer tax paid with original return is true, correct, and complete. Declaration of preparer tax paid with original return is true, correct, and complete. Declaration of preparer tax paid with original return is true, correct, and complete. Declaration of preparer tax paid with original return is true, correct, and complete. Declaration of preparer tax paid with original return is true, correct, and complete. Declaration of preparer tax paid with original return is true, correct, and to the best of my knowledge.  22 Amount of line 10 payment, if and to the best of my knowledge in the line in the control of the paid and the line in the part of the paid and the line in the part of t								-			a avaminad this -	manded return in the	uding accompany'			
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### **Examined Return**

- •A tax return is examined for the accuracy of reported income, expenses and credits.
  - Selection of returns is based on a computerized screening, random sample, an income document matching program or as the result of information given by a third party.
- •Audited returns can extend to returns filed within the last three years and up to six years (if substantial errors are identified).
- Audit lengths vary.

### Closed Examined Form 1040s, from Tax Year 2013, by Fiscal Year





- Source: Compliance Data Warehouse
- Additional Cleaning: Removed invalid SSNs and duplicates, etc.
- <u>Limitations and Complications</u>
  - 1. Lack of data on Form 1040X
    - Loss of information due to aggregation on the form
  - Lack of Form 1040X data on the Master File
    - Lack of access to line item data on Form 1040X
    - Cannot isolate tax changes due to amended returns
  - Margin for human error due to paper-filing

### Results for Tax Year 2013

- Population Data from the Master File
  - 146.83 million Form 1040s Filed
  - 3.32 million Form 1040Xs Filed (2.26 percent)
  - 930,841 Individual Returns were Examined (0.63 percent)

### Amended Returns

Tax Increase: \$2.53 billion

Tax Decrease: -\$4.64 billion

Net Amount: -\$2.11 billion

#### Examinations

- Total Recommended Additional Tax: \$7.76 billion
- Total Recommended Decrease in Taxes: -\$699.33 million
- Net Amount: \$7.06 billion

Total Amount of Taxes Collected from Tax Year 2013: \$1.3 trillion

### Amended Returns

Tax Increase: \$2.53 billion

Tax Decrease: -\$4.64 billion

Net Amount: -\$2.11 billion
 0.16 percent decrease

#### Examinations

- Total Recommended Additional Tax: \$7.76 billion
- Total Recommended Decrease in Taxes: -\$699.33 million
- Net Amount: \$7.06 billion 0.54 percent increase

Total Amount of Taxes Collected from Tax Year 2013: \$1.3 trillion



### IRS Effect on SOI's Products

- Weighted SOI Individual Sample (Estimates)
  - 142.85 million Form 1040s Filed
  - 3.21 million Form 1040Xs Filed (2.25 percent)
  - 829,246 Individual Returns were Examined (0.58 percent)

#### Amended Returns

Tax Increase: \$2.52 billion

Tax Decrease: -\$4.56 billion

Net Amount: -\$2.04 billion

#### Examinations

- Total Recommended Additional Tax: \$5.03 billion
- Total Recommended Decrease in Taxes: -\$646.22 million
- Net Amount: \$4.38 billion

Total Amount of Taxes Collected from Tax Year 2013: \$1.3 trillion

### Amended Returns

Tax Increase: \$2.52 billion

Tax Decrease: -\$4.56 billion

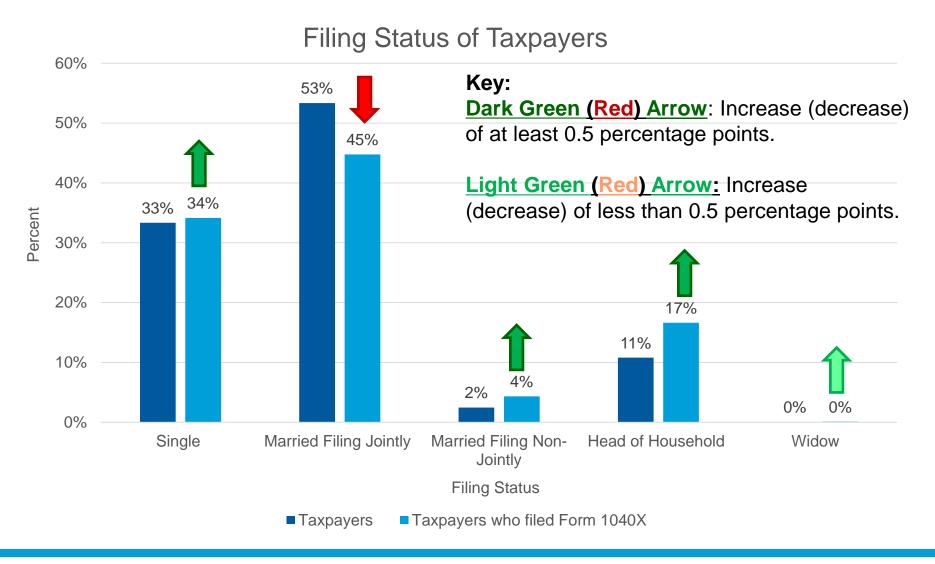
Net Amount: -\$2.04 billion
 0.16 percent decrease

#### Examinations

- Total Recommended Additional Tax: \$5.03 billion
- Total Recommended Decrease in Taxes: -\$646.22 million
- Net Amount: \$4.38 billion 0.34 percent increase

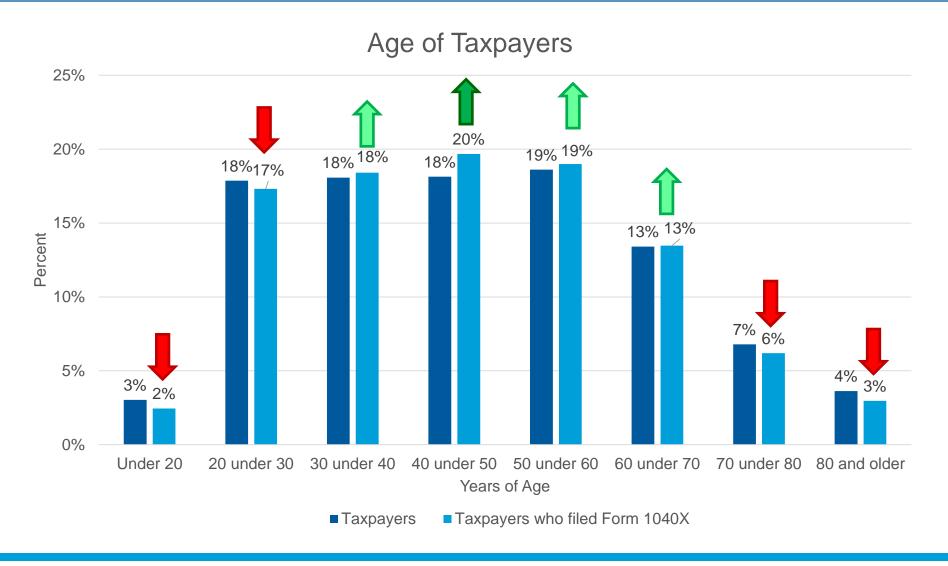
Total Amount of Taxes Collected from Tax Year 2013: \$1.3 trillion

# Profile of Amended Return Filers (SOI's Weighted Sample for Tax Year 2013)



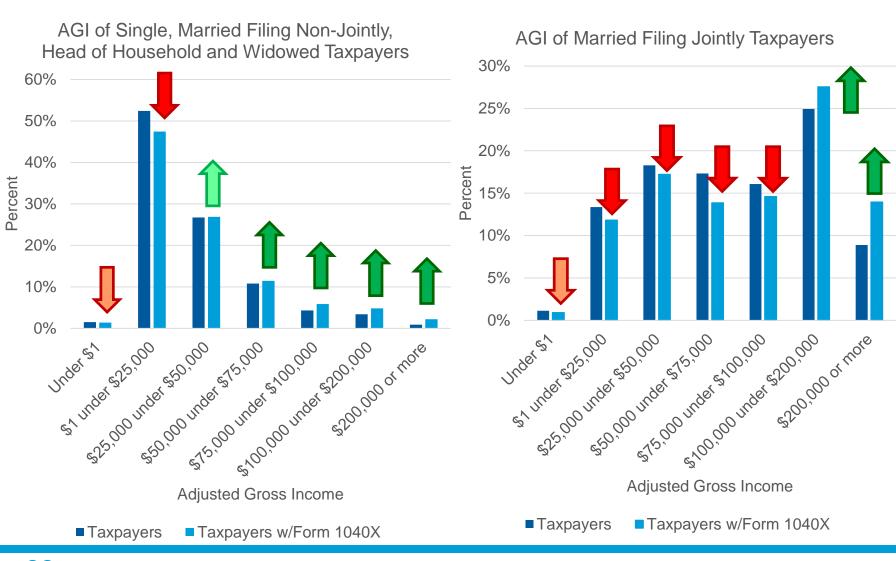


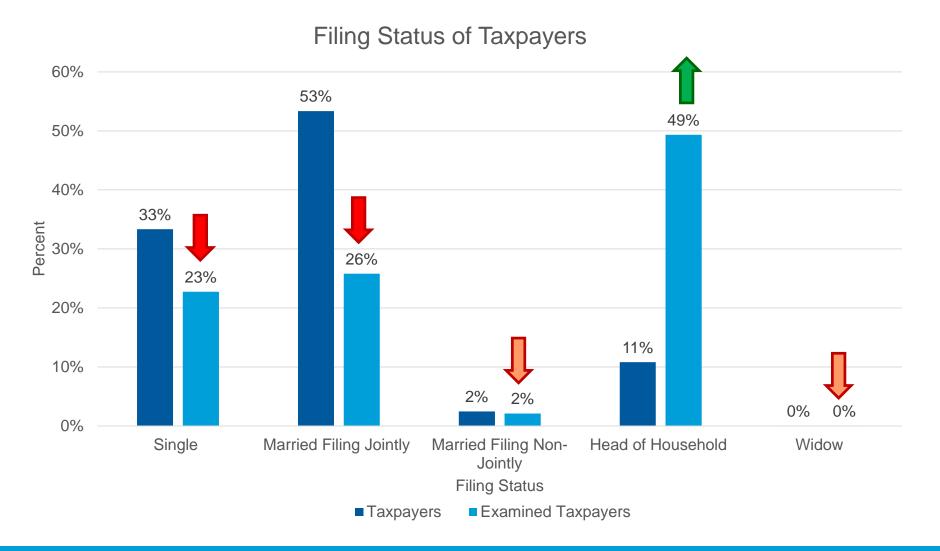
# RS Profile of Amended Return Filers (SOI's Weighted Sample for Tax Year 2013)



### **WIRS**

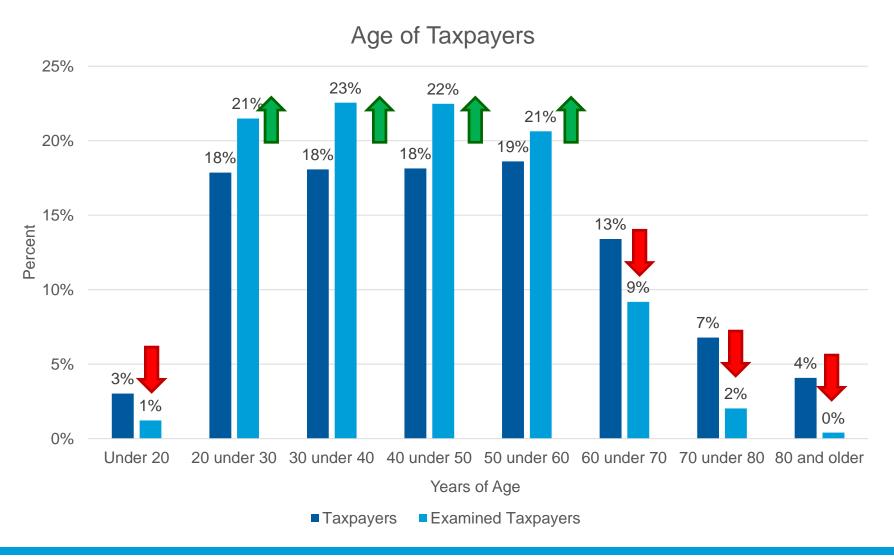
### S Profile of Amended Return Filers (SOI's Weighted Sample for Tax Year 2013)





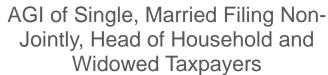


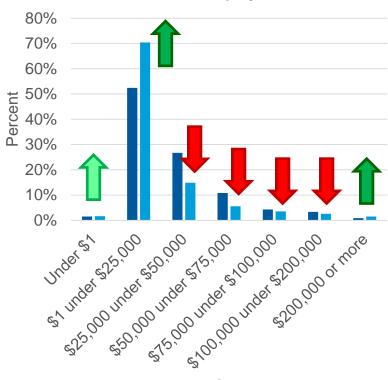
## S Profile of Examined Taxpayers (SOI's Weighted Sample for Tax Year 2013)





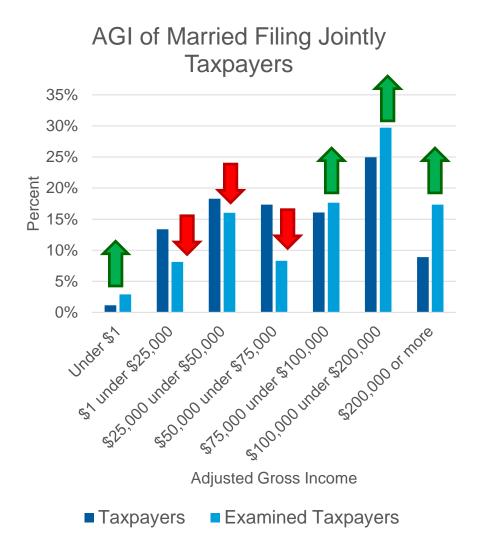
### S Profile of Examined Taxpayers (SOI's Weighted Sample for Tax Year 2013)





Adjusted Gross income

■ Taxpayers ■ Examined Taxpayers



- Amended and audited returns appear to have an effect on the population data although it is very small especially in the context of overall taxes.
  - 2.26 percent of individual returns were amended.
  - 0.63 percent of individual returns were examined.
- The effect of including amended and audited returns on the SOI's individual sample is very close to the effect on the population data.
  - 2.25 percent of individual returns were amended.
  - 0.58 percent of individual returns were examined.
- Trends with Amended Return Filers and Examined Taxpayers



# Corporate Post-Filing Adjustments



### Overview

Forms 1120X, Amended Corporate Income Tax Returns, are corrections to Form 1120 returns that can either be overassessments (taxpayer is due a refund) of tax or underassessments of tax (taxpayer owes tax).

The goal of this project is to identify the impact of the changes reported by the Form 1120X on SOI estimates.



### **Corporations file Form 1120X to**



claim different types of refunds



file protective claims to extend the statute of limitations



request abatements of unpaid tax, interest, and penalties

### Form 1120X Statutory Period of Limitation:

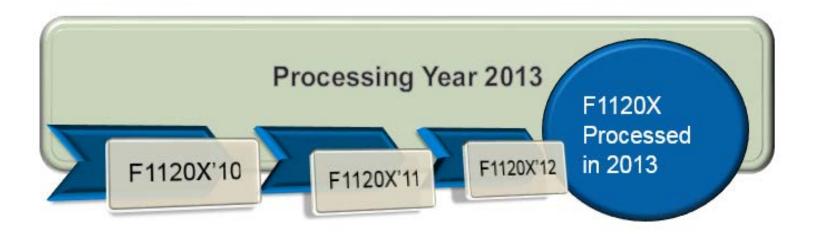
Form 1120X must be filed within 3 years after the date the corporation filed its original return or within 2 years after the date the corporation paid the tax (if filing a claim for a refund), whichever is later.

A Form 1120X based on a bad debt or worthless security must be filed within 7 years after the due date of the return for the tax year in which the debt or security became worthless.



#### **Publication 6186**

Calendar Year Projections for the United States and IRS Campuses: <a href="https://www.irs.gov/pub/irs-soi/p6186.pdf">https://www.irs.gov/pub/irs-soi/p6186.pdf</a>





### RS Research Focus

- Corporations that filed a Form 1120X after a Form 1120
- For SOI year 2013
  - Between the accounting period ending July 2013 through June 2014

July 2013 Jun 2014

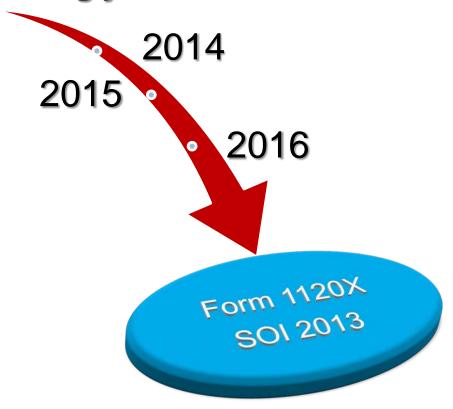
SOI YEAR 2013

 Earliest SOI year, given the long time period of filing for an amendment



## IRS Research Focus

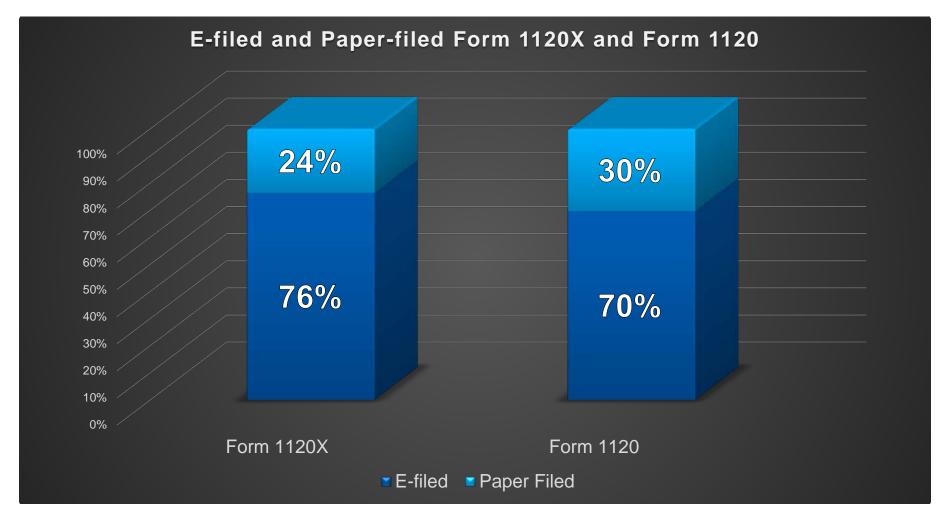
### Form 1120X corresponding to SOI year 2013 can be filed in the following years:





# IRS Filing and Processing Amendments

### Form 1120X can be e-filed and paper-filed.

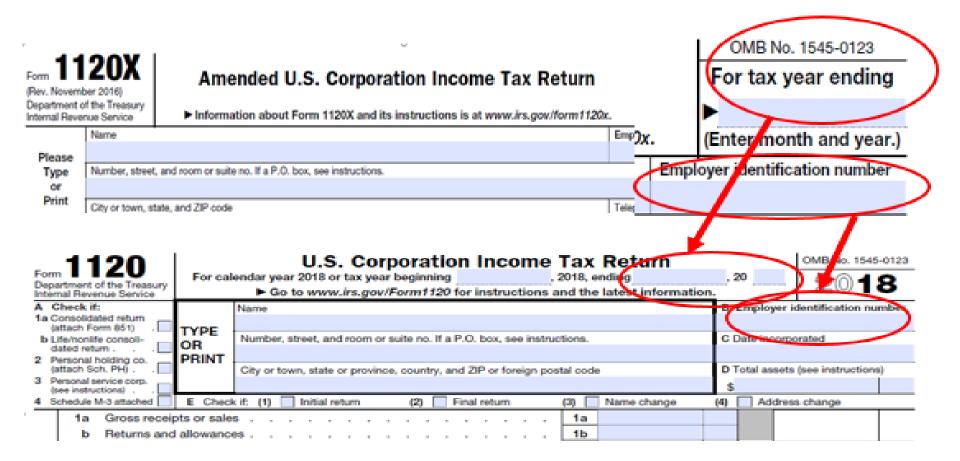




- Filing procedures vary based on type of Form 1120, type of claim or correction, amount, etc.
- Amendment processing involves multiple IRS offices that follow different internal requirements based on the Form 1120 series filed
- Amended returns processing procedures differ from an original Form 1120 return filing



### **Matching Process**





#### **Preliminary Results**

#### Form 1120X filing (For SOI Year 2013)

	Master File Population Data	Weighted SOI Sample (estimates)
Total number of Form 1120X filed (in thousands)	9.4	8.2
Percentage of Form 1120 amended by filing Form 1120X	0.52%	0.46%
Tax Adjustment (in millions)*	<b>-</b> \$78.9	-\$87.7

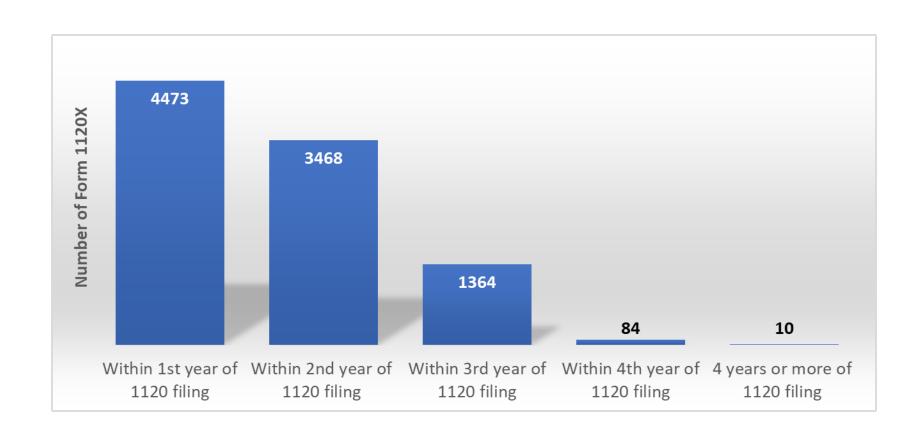
## Total Amount of Taxes Collected, Form 1120, SOI Year 2013: \$282 billion

<sup>\*</sup>These numbers are **preliminary** and the data needs more work on isolation of amendment amounts and of superseded returns and protective claims

- When we compare the population data and weighted estimates from SOI sample, we have two conclusions:
  - The two percentages are close and very small
  - The tax adjustments are similar and very trivial compared to total tax collected amount



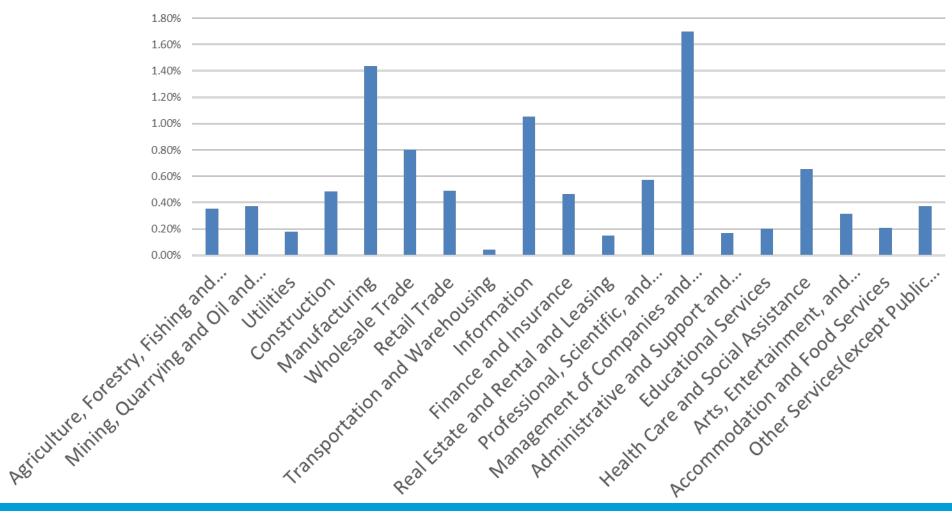
## 1120X Filing Dates Relative to the Original 1120 Filing





#### Industry Distribution of Corporations Amended for SOI year 2013

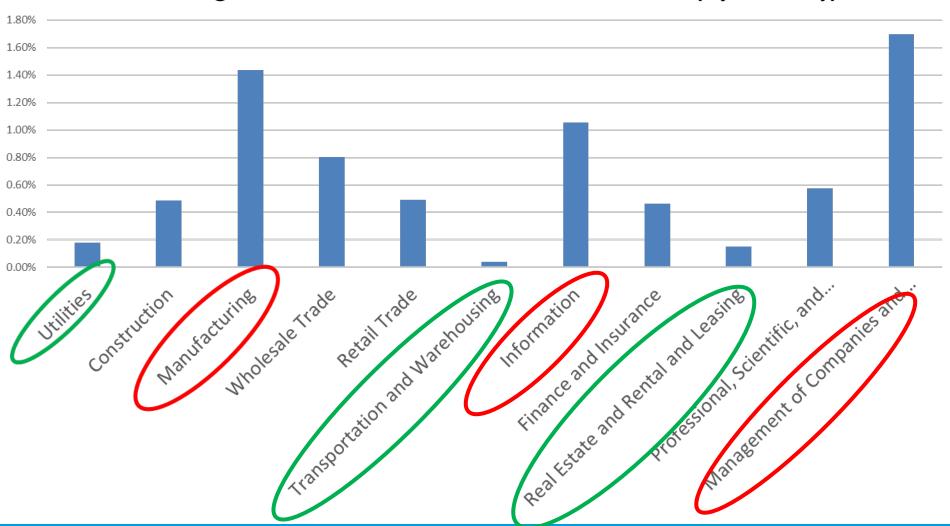
#### Percentages of Returns Associated with Form 1120X (by Industry)





#### Industry Distribution of Corporations Amended for SOI year 2013

#### Percentages of Returns Associated with Form 1120X (by Industry)





#### Asset Distribution of Corporations Amended for SOI year 2013







#### Study of Audits

#### Scope: Form 1120 Series

 We excluded Form 1120S and 1120F to align with the amendment part of this project

Goal: Identify the effect of audits on 1120 SOI Sample Statistics

- We are limited to tax changes
- No line item change



#### Other Statistics on Examinations

#### IRS Databook 2014

- Returns examined in fiscal Year 2014
- Our focus is returns that are filed **for** SOI year 2013 and examined in IRS offices.
  - We do not consider the timing of an examination



## Examination in Master File Level Population Data

#### Returns filed For SOI year 2013 and examined in IRS Offices

Recommended Tax Change	Number of Returns (in thousands)	Dollar Amount of Tax Change (in billions)
Tax Increase	8.2	\$5.4
Tax Decrease	1.2	<b>-</b> \$2.1
No Change	8.1	-
TOTAL	17.5	\$3.3



#### Examination in SOI sample

For SOI year 2013, there were an estimated
 1.6 million Form 1120 returns in the SOI corporation sampling frame

 The weighted SOI sample contains 12.9 thousand examined Form 1120 returns

0.79% of the SOI sample is examined



## Examination estimates from SOI Sample

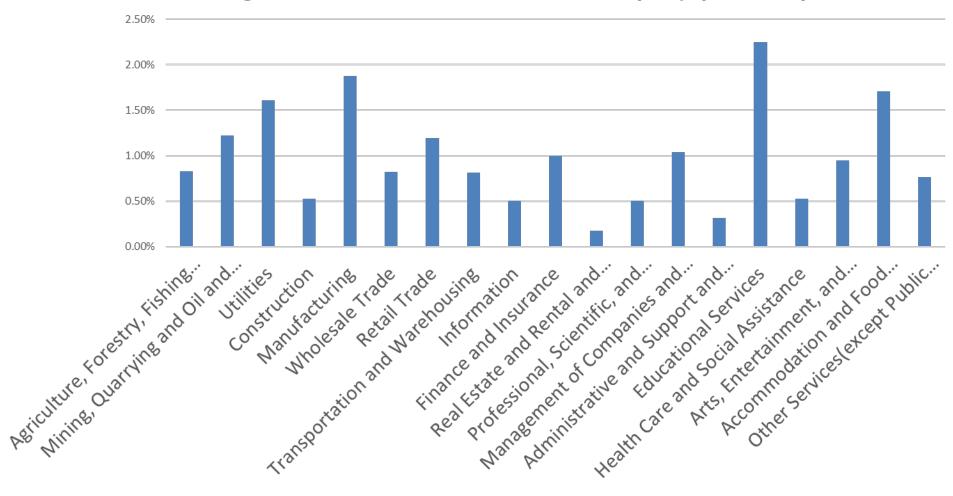
• Those examinations resulted in (estimated):

Returns in SOI Sample and examined in IRS Offices		
Recommended Tax Change	Number of Returns (in thousands)	Dollar Amount of Tax Change (in billions)
Tax Increase	5.3	\$4.9
Tax Decrease	1.3	-\$2.0
No Change	6.3	-
TOTAL	12.9	\$2.9



#### Industry Distribution of Corporations Examined for SOI year 2013

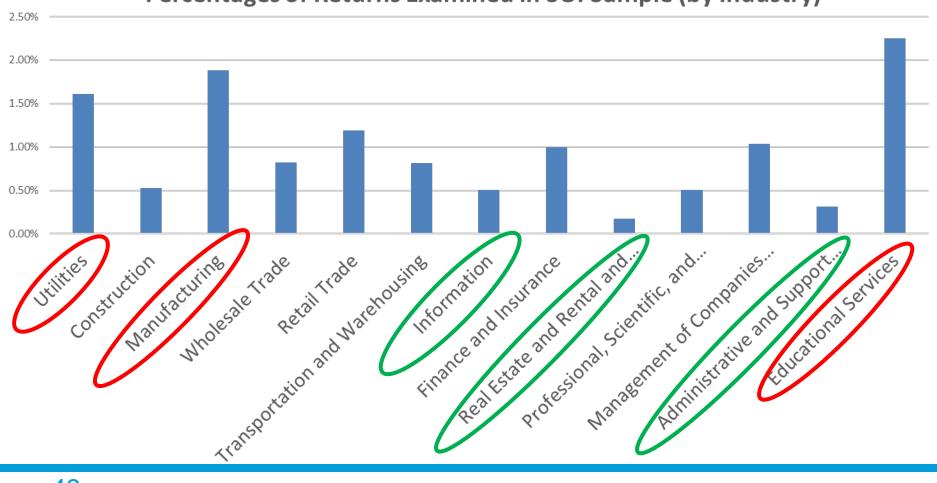
#### Percentages of Returns Examined in SOI Sample (by Industry)





#### Industry Distribution of Corporations Examined for SOI year 2013

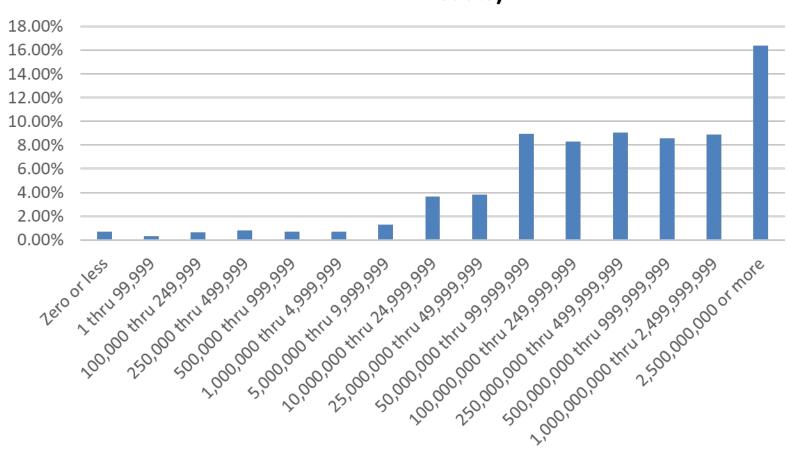






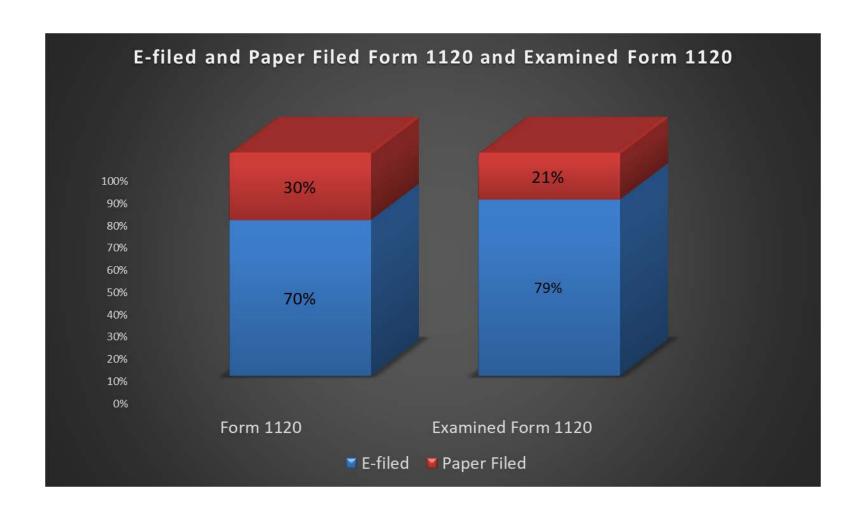
## Asset Distribution of Examined Form 1120 in SOI Sample

## Percentages of Examined Form 1120 in SOI Sample( by Assets)





### IRS Filing Method of Examined Form 1120





#### Conclusion

## Studying Form 1120Xs is a limited way of researching amended corporation returns.

- Our Form 1120X filing study shows that an insignificant percentage of Form 1120 filing in SOI Sample would be affected (0.46%)
- The money amount effect of that would be small, estimated at \$87.7 million net reduction in taxes.
- Some ambiguity still exists, especially with respect to the tax amount change and superseded returns.

#### Conclusion

#### Amended corporation returns are complex due to:

- Filing procedures vary based on type of Form 1120, type of claim or correction, time of filing claim, etc.
- There are multiple ways of processing different forms
- The data spread among several databases
- SOI year differs from fiscal year
- Data is subject to human error



#### Conclusion

## Examination results are preliminary and more research can be done

- A small percentage of returns in SOI sample was audited (approximately 0.79%)
- Those returns cause considerably minor tax amount change in SOI sample (approximately, \$2.9 billion net tax increase)
- We do not know whether the recommended tax change is implemented or not



## Overall Conclusions



#### **Overall Conclusions**

- Challenges to this study
  - Aggregation on Forms 1040X and 1120X
  - Limited data availability
- Answer to our Research Question: Amended and audited returns constitute a small percentage of the population and result in a relatively small change to taxes.
- Profile of Amended Return Filers and Audited Returns



# Questions and Comments



#### Research Group Members

Name	SOI Branch
Derrick Dennis	Statistical Services
Jennifer Ferris	Individual & Tax Exempt
Chloe Gagin	Corporation, Partnership, & International
Tuba Ozer-Gurbuz	Corporation, Partnership, & International
Julia Shiller	Corporation, Partnership, & International
Christopher Williams	Individual & Tax Exempt